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Opening Statement by Mark Carney
Governor of the Bank of Canada
House of Commons Standing Committee on Finance
Ottawa, Ontario
30 October 2012

Good afternoon. Tiff and I are pleased to be here with you today to discuss the October *Monetary Policy Report*, which the Bank published last week.

- The global economy has unfolded broadly as the Bank projected in its July MPR. Growth has slowed in all major regions. The economic expansion in the United States is progressing at a gradual pace. Europe is in recession and recent indicators point to a continued contraction.
- In China and other major emerging economies, growth has slowed somewhat more than expected. However, there are signs of stabilization around current growth rates.
- Notwithstanding the slowdown in global economic activity, prices for oil and other commodities produced in Canada have, on average, increased in recent months. Global financial conditions have improved, supported by aggressive policy actions of major central banks. Sentiment, though, remains fragile.
- In Canada, while global headwinds continue to restrain economic activity, domestic factors are supporting a moderate expansion. Following the recent period of below-potential growth, the economy is expected to pick up and return to full capacity by the end of 2013.
- The Bank continues to project that the expansion will be driven mainly by growth in consumption and business investment, reflecting in part very stimulative domestic financial conditions.
- Housing activity is expected to decline from historically high levels. The household debt burden is expected to rise further before stabilizing by the end of the projection horizon.
- There are upside and downside risks around the evolution of household imbalances. Residential investment could regain momentum, thereby reinforcing existing imbalances. Conversely, continuing high household debt levels could lead to a sharper-than-expected deceleration in household spending. In this context, Canadian authorities are co-operating closely to monitor the financial situation of the household sector, and are responding appropriately.

- Canadian exports are projected to pick up gradually, but remain below their pre-recession peak until the first half of 2014, reflecting weak foreign demand and ongoing competitiveness challenges. These challenges include the persistent strength of the Canadian dollar, which is being influenced by safe haven flows and spillovers from global monetary policy.
- After taking into account revisions to the National Accounts, which had the effect of raising measured growth for this year, the Bank now projects that the economy will grow by 2.2 per cent in 2012. Going forward, we expect growth of 2.3 per cent in 2013 and 2.4 per cent in 2014.
- Core inflation has been lower than expected in recent months. This reflects somewhat softer prices across a wide range of goods and services. Core inflation is expected to increase gradually over coming quarters, reaching 2 per cent by the middle of 2013 as the economy gradually absorbs the current small degree of slack, the growth of labour compensation remains moderate and inflation expectations stay well-anchored.
- Total CPI inflation has fallen noticeably below the 2 per cent target, as expected. It is projected to return to target by the end of 2013, somewhat later than previously anticipated.
- The inflation outlook in Canada is subject to significant risks. The Bank’s projection assumes that authorities in Europe are able to contain the ongoing crisis, and that the U.S. fiscal cliff will be avoided.
    - The three main upside risks relate to the possibility of higher global inflationary pressures, stronger Canadian exports and renewed momentum in Canadian residential investment.
    - The three main downside risks relate to the European crisis, weaker demand for Canadian exports and the possibility that growth in Canadian household spending could be weaker.
- Overall, the Bank judges that the risks to Canada’s inflation outlook are roughly balanced over the projection period.
- Reflecting all of these factors, on 23 October, the Bank maintained the target for the overnight rate at 1 per cent. Over time, some modest withdrawal of monetary policy stimulus will likely be required, consistent with achieving the 2 per cent inflation target. The timing and degree of any such withdrawal will be weighed carefully against global and domestic developments, including the evolution of imbalances in the household sector.

With that, Tiff and I would be pleased to take your questions.